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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
NOVEMBER 17 TO NOVEMBER 21, 2008

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of November 17 to November 21, 2008, including the following:

-- Further Delays in India-EU FTA
-- National Highway Authority of India (NHAI) Projects in Jeopardy
-- PM and Sonia on Crisis
-- Private Pension Fund Managers to Be Appointed Soon
-- GOI Approves $150M Farmer-Support Program in Southern India
-- GOI Considering Textile Industry Relief Package
-- Turkish PM to Discuss Energy and Trade with India
-- Advani Warns of 'Economic Emergency'
-- Rupee Depreciates to All-Time Low
-- German Consulate Opens in Bangalore
-- Karnataka Cancels Global Investor Summit

Further Delays in India-EU FTA

¶2. (U) Additional delays are likely in the negotiations towards a bilateral trade agreement between India and the European Union (EU), which was originally slated for finalization by the end of this year. The EU reportedly wants to raise government procurement, competition policy, and the environment in the trade talks. However, India has traditionally excluded these issues from any bilateral or multilateral trade negotiations and views their inclusion with skepticism. India and the EU agreed to sign a comprehensive economic partnership agreement including a free trade agreement (FTA), investment agreement, and a services agreement. In the last India-EU summit held in September 2008, both sides raised concerns over the scope of the FTA. Indian industry is insistent that the EU bring down tariffs on 95 per cent of the goods covered under the India-EU FTA negotiations as opposed to the proposed elimination of tariffs on 90 per cent of tariff lines under the FTA. Official sources have told the press that the FTA is not likely to be concluded before mid-2009 due to these differences. [Comment: Given upcoming Indian elections and the pace of FTA talks so far, we view even a mid-2009 conclusion as optimistic. End comment.]

National Highway Authority of India (NHAI) Projects in Jeopardy
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¶3. (U) Many short listed bidders of NHAI projects have withdrawn their bids either due to government restrictions or projects no longer being commercially viable. The Indian government plans to bid out about 50 public-private partnership projects, which require a total investment of $12 billion (Rs 60,000 crore), under the build, operate, and transfer (BOT) scheme in December. These projects are likely to be delayed with large construction companies, including Larsen & Toubro, Hindustan Construction, Nagarjuna, Maytas Infra, DLF, Gammon and GVK, having withdrawn from over 15 highway projects. In the last two months, nearly five highway projects worth $600 million (Rs 3,000 crore) could not find a single bidder. Some of the key stretches on which the short listed bidders have withdrawn bids include MP-Maharashtra Border Dhule, Tirupati-Tiruthani-Chennai, Vijaywada-Machilipatnam, Kundapur-Surathkal.

¶4. (U) In August 2008, the Ministry of Road Transport and Highways restricted a company from bidding on more than 15 projects and undertaking no more than 8 projects at a time. Large companies find this restriction economically un-viable, as these companies want to participate in as many projects as possible to bring down cost and spread their risk. The companies are also finding it difficult to get financial closures of projects due to the global liquidity crunch. Also, further restraining construction companies are the higher interest rates which have increased by 12 to 16 percent, charged by the banks for project loans. Private industry is finding the BOT projects unviable due to the high construction costs, faulty traffic projections, and stiff penalties on projects that get delayed for reasons beyond their control.

PM and Sonia on Crisis

¶5. (U) Prime Minister Singh and Congress Party President Sonia Gandhi, in a rare public speech, assured the audiences at a leadership summit in Delhi on November 21 that the Indian economy remained strong, although Gandhi also used the opportunity to deride the greed of bankers for their role in the global financial crisis. Singh reiterated the government view that India can attain 8% GDP growth this fiscal year, despite the fact that most economists have lowered their projections to around 7%. While India cannot pretend that it is not affected by the world financial situation, Singh maintained that it was a global problem requiring a global solution. Gandhi's remarks, which the moderator characterized as a preview of the Congress Party's election themes, asserted that liberalization must be continued in India, albeit with "caution". While praising Indira Gandhi's nationalization of the banks in the 1960s for leading Indian banks to be sound enough to withstand the crisis, Gandhi stressed that India could not go back to such controls. She stated that India must recognize that it is interconnected with the world economy whether "we like it or not" and believes an open economy is the proper one. As such, Gandhi opined that India should pursue liberalization with sensible, but not "heavy-handed" regulation. She called for more public investment in physical and social infrastructure, lamenting the adverse impact of the crisis on India's vulnerable sectors.

Private Pension Fund Managers to Be Appointed Soon

¶6. (SBU) Confirming what Meena Chaturvedi, Executive Director of the Pension Fund Regulatory and Development Authority (PRFDA) told Econoff in September, Business Standard reported this week that the regulator PFRDA will start the process of inviting bids in December 2008 from prospective private pension fund managers including foreign fund managers for managing the pension contributions. The PFRDA is appointing a Committee and also consulting firm Mercer to evaluate the bids of the fund managers, based on the management fees. Workers in the large unorganized sector, including the self-employed, would be allowed to participate in the new pension scheme. Norms, currently being worked out by PFRDA would be announced by January 31, so that the private fund managers can start operations beginning fiscal year, April 1, 2009.

¶7. (SBU) The fund managers will have to establish separate asset management companies to offer pension plans and will also have to sign an agreement with the PFRDA since a Bill providing statutory backing to the regulator is pending parliamentary approval. Foreign investors will be allowed to invest up to 26 percent equity in these asset management firms, (the same amount as that in the insurance sector) for which the initial capital required will be $2 million. Initially up to six asset management companies will be appointed and the number may be increased at a later stage. The government earlier this year appointed three public sector companies, the Life Insurance Corporation, the State Bank of India and UTI Asset Management Company as fund managers for managing the government employees' contributory pension scheme. These fund managers will have to submit fresh bids if they want to manage the private pension schemes.

¶8. (SBU) An expert committee headed by HDFC Chairman Deepak Parekh is working out the investment options and the investment pattern and the default option - that is, the scheme that will automatically apply if the investor (due to lack of awareness) does not make a specific choice. The schemes will vary from investing only in government securities to a debt-oriented option and a life-cycle plan where the investment pattern changes according to the investor's age profile of the individual. Subscribers will have the option to change their fund manager and the investment option once a year. The regulator is also inviting applications from banks and other intermediaries as Points of Presence (entities such as an insurance company, mutual fund or post office regulated by one of the financial regulators) where pension money can be deposited.

GOI Approves $150M Farmer-Support Program in Southern India

¶9. (U) Acting on recommendations by the Chennai-based MS Swaminathan Research Foundation, the GOI's Cabinet Committee on Economic Affairs (CCEA) on November 30 approved financial support of about Rs 765 crore ($150M) to implement programs in districts with large numbers of farmers in distress. The decision, taken by the CCEA at a meeting chaired by PM Singh, includes financial support of Rs 361 crore (approx $72M) for promoting research on plantation crops such as rubber, coffee, cardamom, pepper and tea, according to press quoting PMO Minister of State Prithviraj Chavan. The Swaminathan Foundation's recommendations to provide support to counter the high price of copper fungicides and banana crop insurance were also approved, Chavan said. Following high levels of farmer indebtedness and distress, the GOI in 2006 identified 36 districts in Kerala, Andhra Pradesh, Karnataka, and Maharashtra for a special plan of action. The Chennai-based Foundation was then assigned to study the problem and recommend measures to mitigate agrarian distress.

GOI Considering Textile Industry Relief Package

¶10. (U) According to local media, the textile industry, which has already experienced a job cut of around 700,000 workers this year, may see a further reduction of 500,000 jobs due to the recent decline in exports combined with an unstable rupee, cotton prices, power problems and the credit crunch. FICCI estimates that the growth rate of the textile industry has dropped from eight percent in 2005-2006 to 0.8 percent in April-August 2008-2009. In order to prevent expected job cuts, Prime Minister Singh, at the urging of FICCI and the textile sector, has organized a panel of senior government officials to develop a relief package with input from the textile industry.

¶11. (U) FICCI and the textile sector have advocated that a relief package include, among other things, reduction of excise duties on man-made fibers, ten percent import duties on man-made fibers, and continuance of financial assistance to the industry in the form of packing credit. Packing credit, which textile exporters tend to use as their working capital to handle shipments until final payments are made, is based on exporters' order books approximately 180 days before shipment and 90 days after shipment. In the past the packing

credit was allowed at a rate of interest less than four percent, however, RBI issued a notice to terminate the interest subvention as early on September 30, 2008, leaving exporters only able to access credit at prevailing market rates.

Turkish PM to Discuss Energy and Trade with India

¶12. (U) Turkish Prime Minister Recep Tayyip Erdogan, on his first-ever state visit to India, will meet Prime Minister Manmohan Singh to discuss broadening bilateral relations. While Turkey and India have maintained friendly relations, the visit of the Turkish PM from November 20-24 is specifically aimed at enhancing bilateral economic and anti-terrorist cooperation. Bilateral trade volume has almost tripled between 2003 and 2007 between India and Turkey, from $795 million to $2.6 billion. PM Erdogan has reportedly stated that the aim is to increase this figure to 6 billion USD by 2010.

¶13. (U) Private sectors of both India and Turkey see great prospects for further cooperation in the fields of energy, construction, tourism, automotive and information technologies. Energy is one area where the two countries see potential for cooperation. India has been in talks with Turkey and Israel for an oil pipeline project transporting oil, via Ashkelon-Eilat (Israel), to India through the Red Sea with oil tankers. The Indian Oil Corporation is pursuing negotiations with the consortium of companies involved. The project, if finalized, is projected to help overcome some of the critical bottlenecks in global energy supply chain, by linking energy suppliers in Eurasia with the energy consumers in Southeast

Asia, mainly India. PM Erdogan in a press interview has hinted that a cooperation agreement on anti-terrorism was in the works.

Advani Warns of 'Economic Emergency'

¶14. (U) Commenting on the current economic situation in a meeting with local industry, opposition Bhartiya Janata Party (BJP) leader LK Advani warned that India could face an "economic emergency" if the government fails to tackle the uncertainty and insecurity resulting from the global financial crisis. He was emphatic that the crisis has touched all segments of the economy and the society and that it "could assume the proportions of an economic emergency unless it is handled with determination, clarity of thought, and creative new approaches". The industry leaders representing almost all core sectors briefed Advani about the impact of the global slowdown on them -- especially the high interest rate regime, credit squeeze, and slowdown in demand. PM Singh also convened a similar meeting a few days ago to understand the impact of the economic crisis on India and its industry in particular. The GOI expects economic growth this fiscal year to be in the range of 7-7.5 per cent -- far below the average 9 per cent it achieved for the last 4 years.

Rupee Depreciates to All-Time Low

¶15. (SBU) The rupee has depreciated by about 25 percent in the past six-and-a-half months, from Rs 40/02 dollar in April to a record low of Rs 50.2/dollar on November 20, as the global financial crisis has come ashore in India several ways. First, before oil prices tumbled sharply in the last fortnight, a sharp widening of the trade and current account deficit to finance expensive oil imports and huge demand of dollars from foreign institutional investors, who have sold stocks worth over $10 billion since January 2008, created the early downward pressure on the rupee. The rupee's slide worsened since September, as foreign financing dried up for Indian companies and banks. Domestic companies which are unable to raise funds from the global market are converting rupee borrowings into dollars to meet overseas business commitments, increasing the demand for the dollar and hence weakening the rupee.

¶16. (SBU) Analysts believe the rupee's recent fall may also be due to an arbitrage opportunity between the domestic rate and the offshore rate for non-deliverable forwards. Forward trades on the

partially-convertible rupee - under which a buyer can buy dollars for a delivery at a future date but at today's price - are conducted in offshore markets. The rupee/dollar exchange rate in these markets had recently exceeded that in India's forex markets because of the central bank's intervention to mitigate the rupee's slide, giving dealers a clear arbitrage opportunity for buying dollars in the domestic market for selling them in the offshore markets of Singapore and Dubai. Further, news media report that exporters are not bringing their dollar earnings to India in the hope of bringing them in later when the rupee depreciates further, which would then allow them to earn more rupees. This further lowers capital inflows and keeps the rupee weak.

German Consulate Opens in Bangalore

¶17. (U) Germany inaugurated on November 21 a fully functional Consulate General in Bangalore, complete with visa operations. The Consulate is Germany's second diplomatic post in South India, after its Consulate General in Chennai. Consul General Stefan Graf (who has been working in Bangalore for more than a year) told Consulate General Chennai that the presence of many German companies and German nationals in the city prompted the establishment of the new Consulate.

¶18. (SBU) The Government of Karnataka expects the Consulate to attract more investment. The state's Industries Secretary told us that the state hoped to attract the Thyssen-Rohm-Krupp group to

invest in the state. He also said that the presence of the German Consulate would provide a "level of comfort" that German investors would find attractive. (Comment: In our own discussions with Karnataka officials, their top talking point is always to encourage the USG to open a diplomatic presence in Bangalore. End Comment)

Karnataka Cancels Global Investor Summit

¶19. (SBU) The Government of Karnataka (GoK) on November 20 announced the cancellation of a proposed "Global Investor Summit" originally slated for January 2009. A top assistant to the state's Chief Minister told Consulate Chennai that only two of the fifty U.S. companies that expressed interest in participating in the event had actually paid the required registration fee. He said that similar proportions of companies from the Middle East and Europe also failed to confirm their participation by paying the fee, prompting the GoK's Industries Minister to cancel the event, which had been expected to draw top-tier companies from around the world.

¶20. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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